## CONFIDENTIAL

MPIC/IDS/D/ 6 December 1966

25X1A

MEMORARDUM FOR: Chief, Procurement Division, OL

ATTENTION:

25X1A

THROUGH:

Chief, Support Staff, NPIC

25X1A

SUBJECT:

REFERENCES:

a. Procurement Division/OL Memorandum to MPIC/ Assistant for Plans and Davelopment, dated 28 October 1966

b. MPIC/P&DS/D/Memorandum, dated 21 July 1966

25X1

## **DECLASS REVIEW by NIMA/DOD**

25X1A

- 1. Your memorandum, duted 23 October 1966 (Reference a). requested assurance that NFTC would make funds available to the total to cover a negotiated settlement of the subject amount of contracts.
- 2. It is the position of the Tacintal Development Staff, MPIC, as clearly stated in our memorandum, Thed 21 July 1965 (Reference b), that in order to effect an equitable settlement of these traublesome contracts and in order not to lineariably distress a valuable supplier, we would reluctantly support an after-the-fact, change of scope on what the contractor refers to as Item I "Vacuum Hold-Down Mechanism" as described in Paragraph 5 of Reference (b).
- 3. It is a source of great consorn to this staff that a major portion of the contractual troubles evident in these centracts apparently originated from the fact that the type of contracts negotiated were not suited to the requirement of the technical development involved; i.e., a fixed price (supply type) contract for a research and development effort that was clearly pushing the stateof-the-art. This type of contract was strenuously objected to by representatives of this staff at the time of the original contract negotiations. This problem was further compounded by the failure to include the Development Objectives (a very specific document) as a part of the contract -- thereby binding us legally only to the Contractor's Proposal.
- 4. This stuff questions the size of the negotiated settlement, not because of the amount of money involved, but because we cannot see how this figure was obtained on the basis of a change of scope

## CONFIDENTIAL

25X1A

SUBJECT:

on only Item I as defined in paragraph 5 of Reference (b). The best figures this office has been able to obtain from the Agency auditors are as follows:

Source

25X1A

Contractors Estimate of Cost.

Change of Scope Item I only (Vacuum Hold Down) Total Cost for all Changes of Scope Items I, II, III, & IV.

(no fee)
Obtained from auditor

(no fce)
Obtained from auditor

25X1A

Auditor's Estimate of Allowable Costs

25X1

Calculated by us\*

Obtained from auditor

\* This figure was derived by calculating the same percentage as the contractor allowed for both contracts. (Item I Cost Items I, II, III, & IV Cost

Base figures as obtained from auditor.

5. We do not feel that we can accept the contractor's figures because they are obviously misleading. An analysis of the labor hours alone would indicate that 35% of the total labor spent on these two contracts was spent against the four (claimed) change of scope items leaving only 65% against the major engineering, fabrication, and check out of the equipment itself. Obviously, this is most unlikely. It we accept the auditors allowable costs chargable against Item I this would indicate a settlement on the order of not including profit. The Technical Development Staff feels strongly that we cannot support any settlement which would imply our sanctioning of a change of scope on items other than Item I (Vacuum Hold Down).

25X1A

6. There is a question confronting NPIC as to whether or not this change of scope can be charged against the year in which the change occurred or whether it must come from current year funds which are in short supply. The funding is further complicated by the fact that part of the cost of a settlement on should be charged against the Army and Mavy since two of the units purchased were theirs through joint procurement action -- unless the Agency is willing to absorb this cost. We have no basis for going to

25X1A

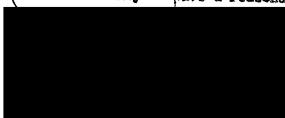
## Approved For Release 2002/01/02: CIA-RDP78B04747A002100090028-0 CONFIDENTIAL

SUBJECT:

25X1A

the Services for additional funds since they did not concur in the so-called change of scope -- to them, as to us, this was a fixed price contract. This is a very difficult problem we are trying to resolve. It will probably have to be ruled upon by the General Consul.

7. This staff would recommend a settlement based upon the total allowable cost on Item I only -- plus a reasonable profit.



25X1A

Assistant for Technical Development, MPIC

Distribution: Orig & 1 - Addressee

1 - C'/SS/NPIC

3 - TDS/DS

x2§X1A

NPIC/TDS:

pnf/

(6 Dec 66)